

Message Text

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ORIGIN EB-08

INFO OCT-01 ARA-10 ISO-00 DOE-15 NSC-05 SP-02 SOE-02
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DRAFTED BY EB/ORF/FSE:JCTODD,EW
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ARA/ECP:EODONNELL
ARA:VPVAKY
S/P:TMORAN (DRAFT)

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FM SECSTATE WASHDC
TO AMEMBASSY CARACAS

CONFIDENTIAL STATE 184763

E.O. 11652: GDS

TAGS: ENRG, VE, US

SUBJECT: US RESPONSE TO ENERGY ISSUES RAISED DURING
PRESIDENT'S TRIP TO VENEZUELA

REF: CARACAS 3063

1. ENERGY ISSUES WHICH WERE RAISED BY PRESIDENT PEREZ WITH
PRESIDENT CARTER HAVE BEEN THOROUGHLY CONSIDERED WITHIN
U.S. GOVERNMENT. WITH REGARD TO THE DISCUSSIONS WITH THE
VENEZUELAN GOVERNMENT ON A LONG-TERM SUPPLY AGREEMENT AND
ON THE DEVELOPMENT OF THE ORINOCO TARBELT, THE PRESIDENT
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HAS DIRECTED THE DEPARTMENTS OF STATE AND ENERGY TO CON-
TINUE DISCUSSIONS IN A POSITIVE MANNER WITH THE PURPOSE OF
TRYING TO FIND AREAS FOR FRUITFUL AND MUTUALLY BENEFICIAL
COOPERATION.

2. AS EMBASSY IS AWARE, MANY OF THESE ISSUES HAD ALSO BEEN
DISCUSSED PREVIOUSLY WHEN SECRETARY SCHLESINGER MET WITH

MINISTER HERNANDEZ, AND DURING EARLIER WORKING LEVEL DISCUSSIONS. INFORMAL ENERGY COOPERATION WITH VENEZUELA IS WELL UNDER WAY, AS EXEMPLIFIED BY THE MINISTERIAL VISIT AND TRIPS BY TECHNICAL EXPERTS ON TOPICS SUCH AS ENERGY SYSTEMS ANALYSIS AND ENHANCED OIL RECOVERY. QUESTION OF ALLEGED VIOLATION OF RECIPROCAL TRADE AGREEMENT HAS ALREADY BEEN ANSWERED (STATE 133914). OUTLINED BELOW FOR EMBASSY'S

INFORMATION AND GUIDANCE IS THE STATUS OF OTHER POINTS THAT CAME UP IN SCHLESINGER'S MEETING WITH MINISTER HERNANDEZ.

3. LONG TERM SUPPLY AGREEMENT. SCHLESINGER TOLD HERNANDEZ THAT THE US IS UNABLE TO SEPARATE SECURITY AND PRICE, THAT US OIL IMPORTERS WILL SHIFT SOURCES OF SUPPLY IN RESPONSE TO PRICE DIFFERENCES, AND THAT THE US GOVERNMENT ITSELF IS VERY SENSITIVE TO THE PRICE ISSUE. FOR THE US, A LONG TERM SUPPLY ARRANGEMENT WOULD BE OF INTEREST ONLY IF IT HAD THE EFFECT OF RESULTING IN LOWER PRICES THAN OTHERWISE. WE REMAIN WILLING TO HEAR THE VENEZUELAN'S OUT IN OUR BILATERAL DISCUSSIONS WITH REGARD TO SUPPLY AND PRICE ISSUES.

4. CONGRESSIONAL ACTIONS TO PROTECT US REFINERS. THE VENEZUELAN'S INQUIRED ABOUT THE AMENDMENT PROPOSED BY SENATOR HASKELL TO THE TRADE EXPANSION ACT OF 1962, WHICH WOULD ENCOURAGE THE PRESIDENT TO IMPOSE OR ADJUST IMPORT CONFIDENTIAL

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FEES ON PETROLEUM PRODUCTS IF PRODUCT IMPORTS THREATENED THE ECONOMIC WELFARE OF THE DOMESTIC REFINING INDUSTRY. THE ADMINISTRATION CONSIDERS THIS AMENDMENT UNNECESSARY AND INADVISABLE. (FYI UNDER SECTION 232 (B) OF THE TRADE EXPANSION ACT, THE PRESIDENT ALREADY HAS THE AUTHORITY TO TAKE MEASURES TO ADJUST ANY IMPORTS ON NATIONAL SECURITY GROUNDS.)

5. RESIDUAL FUEL OIL FOR THE STRATEGIC RESERVE. THIS SUBJECT ALSO CAME UP DURING THE SCHLESINGER-HERNANDEZ MEETING. THE VENEZUELAN'S WERE TOLD THAT OUR PRESENT POLICY IS TO STORE ONLY CRUDE OIL, BUT THAT WE ARE CONSIDERING STORAGE OF SOME RESIDUAL FUEL OIL CLOSE TO THE US NORTHEASTERN MARKET. RESIDUAL FUEL OIL IS NOT TO BE INCLUDED IN THE FIRST 500 MILLION BARRELS STORED IN THE STRATEGIC RESERVE, HOWEVER, AND IF IT IS EVENTUALLY INCLUDED, IT WOULD PROBABLY BE ACQUIRED AFTER 1980.

6. COOPERATION IN TARBELT DEVELOPMENT. A DOE TECHNICAL TEAM VISITED VENEZUELA IN JUNE, AND WE ARE CURRENTLY CONSIDERING WHAT, IF ANY, TYPE OF COOPERATION WOULD BE MUTUALLY BENEFICIAL IN THIS SPECIFIC AREA. HOWEVER, THE

GOV'S CONCEPT WITH REGARD TO BILATERAL ENERGY COOPERATION IN TARBELT DEVELOPMENT IS MUCH MORE COMPREHENSIVE THAN LIMITED TECHNICAL EXCHANGES ON A GOVERNMENT-TO-GOVERNMENT BASIS. WITHIN THE FRAMEWORK OF OUR PERIODIC ENERGY CONSULTATIONS, WE WILL SEEK TO ASCERTAIN WHAT TYPE OF ADDITIONAL USG COOPERATION THE GOV IS SEEKING, HOW IT WOULD ENVISION PARTICIPATION BY US COMPANIES IN TARBELT DEVELOPMENT, AND WHAT THE GOV WOULD BE PREPARED TO OFFER THE

COMPANIES ON TAXES, PRICES, AND DISPOSITION OF SUPPLIES. AFTER EVALUATING THESE DISCUSSIONS WE WILL BE BETTER ABLE TO JUDGE THE FEASIBILITY OF ENCOURAGING PRIVATE SECTOR INVOLVEMENT. VANCE

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